Yoho Resources

2006 annual review

Table of Contents

YOHO RESOURCES

2006 Annual Financial Information

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A"), dated December 11, 2006, reviews Yoho Resources Inc.'s ("Yoho" or the "Company") activities and results of operations for the periods ended September 30, 2006 and 2005 and should be read in conjunction with the consolidated financial statements for the year ended September 30, 2006 and for the period from December 23, 2004 to September 30, 2005.

CORPORATE

On December 21, 2004, the Company received approval of the Alberta Court of Queen's Bench pursuant to the Companies Creditor Arrangement Act (Canada) (the "CCAA") as well as the approval of the Ontario Superior Court of Justice pursuant to the Business Corporations Act (Ontario), on December 23, 2004, of a Plan of Arrangement (the "Arrangement") between the Company, Yoho Resources Investment Partnership, VIQ Solutions Inc. ("VIQ Solutions") and the Company's shareholders and creditors. The transactions implemented under the Arrangement are described in note 14 of the consolidated financial statements.

Effective December 23, 2004, the Company acquired all of the issued and outstanding shares of 11 petroleum and natural gas companies and transformed itself into a petroleum and natural gas exploration, development and marketing company operating in western Canada.

BASIS OF PRESENTATION

The consolidated financial statements include the results of operations from the petroleum and natural gas properties from the acquisition date of December 23, 2004. As a result of the corporate reorganization under the Arrangement (note 14), the deficit at the date of the corporate reorganization has been eliminated against the share capital as described in note 6 of the consolidated financial statements. The comparative information for the prior year is for the period from December 23, 2004 to September 30, 2005.

NON-GAAP FINANCIAL MEASURES

Yoho evaluates performance based on net income and funds from operations. Funds from operations and funds from operations per share are not measurements based on generally accepted accounting principles ("GAAP"), but are financial terms commonly used in the oil and gas industry. The Company's funds from operations is detailed on the Consolidated Statements of Cash Flow and may not be comparable to other companies. Yoho calculates funds from operations per share using the same method and shares outstanding which are used in the determination of net income per share. The Company considers it a key measure as it demonstrates the ability of the Company to generate the funds necessary to finance future capital investments.

Yoho also uses "operating netbacks" as a key performance indicator of field results by commodity. Operating netbacks do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Operating netbacks are determined by deducting royalties, operating, processing and transportation expenses from petroleum and natural gas sales.

Funds from operations and operating netbacks are not intended to represent operating profits, nor should they be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP.

BOE PRESENTATION

In conformity with National Instrument 51-101, Standards for Disclosure of Oil and Gas Activities ("NI 51-101"), natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that the term "boe" may be misleading, particularly if used in isolation.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This management's discussion and analysis contains forward-looking statements related to future events or future performance. Certain statements regarding Yoho, including management's assessments of future plans and operations, may constitute forward-looking statements under applicable securities laws and necessarily involve known and unknown risks and uncertainties, most of which are beyond Yoho's control. These risks may cause actual financial and operating results, performance, levels of activity and achievements to differ materially from those expressed in, or implied by, such forward-looking statements.

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced; competition from other producers, the lack of availability of drilling rigs and other field services, the lack of availability of qualified personnel; fluctuations in commodity prices; the results of exploration and development drilling and related activities; imprecision in reserve estimates; the production and growth potential of Yoho's various assets; fluctuations in foreign exchange or interest rates; the ability to access sufficient capital from internal and external sources; and obtaining required approvals of regulatory authorities.

Accordingly, Yoho gives no assurance nor makes any representations or warranty that the expectations conveyed by the forward-looking statements will prove to be correct and actual results may differ materially from those anticipated in the forward-looking statements. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. Yoho undertakes no obligation to publicly update or revise any forward-looking statements.

This MD&A was reviewed and approved by the Company's Audit Committee and Board of Directors on December 11, 2006.

Additional information regarding Yoho is available under the Company's profile on SEDAR at www.sedar.com. Information is also accessible on Yoho's website at www.yohoresources.ca.

SUMMARY OF SELECTED OPERATING AND FINANCIAL RESULTS

	Year ended September 30, 2006	Period from December 23, 2004 to September 30, 2005 (1)
Production		
Heavy oil (bbls/d)	**196**	267
Light oil and NGL (bbls/d)	**106**	2
Natural gas (mcf/d)	**2,422**	1,735
BOE (boe/d)	**706**	556
Average prices		
Heavy oil ($/bbl)	**34.07**	29.03
Light oil ($/bbl)	**64.20**	69.93
Natural gas liquids ($/bbl)	**49.77**	-
Natural gas ($/mcf)	**6.96**	7.84
Financial ($)		
Petroleum and natural gas sales	**10,739,566**	6,018,584
Funds from operations	**6,457,539**	3,120,688
per share - basic	**0.48**	0.34
per share - diluted	**0.44**	0.34
Net income	**1,834,991**	1,439,262
per share - basic	**0.14**	0.16
per share - diluted	**0.12**	0.16

(1) The results for the period ended December 31, 2004 include the oil and gas operations from the acquisition of the 11 petroleum and natural gas companies on December 23, 2004.

Drilling

	Year ended September 30, 2006		Period from December 23, 2004 to September 30, 2005	
	Gross	**Net**	Gross	Net
Oil wells	**7**	**3.2**	3	1.5
Gas wells	**17**	**7.5**	-	-
Dry and abandoned	**9**	**3.7**	5	2.0
Total	**33**	**14.4**	8	3.5
Success rate		**74%**		43%

RESULTS OF OPERATIONS

Production

Production for the year ended September 30, 2006 averaged 706 boe per day, a 27% increase from 556 boe per day for the previous fiscal year. Heavy oil production for 2006 was 196 barrels per day, a decrease of 27% from 267 barrels per day during 2005. The decrease in heavy oil production was due to natural declines as there were no new wells drilled on the heavy oil properties in 2006. Production of light oil and natural gas liquids in 2006 was 106 barrels per day compared to two barrels per day during 2005. Natural gas production was 2,422 mcf per day in 2006, an increase of 40% from 1,735 mcf per day during 2005. The increases in light oil and natural gas production during 2006 were the result of the successful wells drilled during the year in the Peace River Arch.

Revenue

Petroleum and natural gas sales for the year ended September 30, 2006 were $10,739,566, an increase of 78% from $6,018,584 for 2005. The increase in petroleum and natural gas sales was due to a 27% increase in production and higher heavy oil prices received in 2006. Crude oil, natural gas and natural gas liquids are sold at prevailing market prices less deductions for quality adjustments and applicable tariffs. Yoho did not enter into any hedging transactions during fiscal 2006.

The Company, during fiscal 2006, received a net price of $34.07 per barrel for heavy oil, $64.20 per barrel for light oil, $49.77 per barrel for natural gas liquids and $6.96 per mcf for natural gas. The wellhead price received for the Company's heavy oil is impacted by the heavy oil differential and the price of diluent added to the heavy oil in the Seal area to meet pipeline specifications. The price received for natural gas liquids is lower than the light oil price due to the lower prices received for propane and butane. During 2005, commodity prices received were $29.03 per barrel for heavy oil, $69.93 per barrel for light oil, and $7.84 per mcf for natural gas.

Royalties

Total royalties, net of ARTC, for fiscal 2006 were $1,244,094 compared to $667,954 for 2005. Royalties for 2006 were 11.6% of sales compared to 11.1% of sales for 2005. Royalties for 2006 increased with higher petroleum and natural gas sales. The new natural gas production during 2006 has a higher royalty rate and contributes to the increase in royalties as a percentage of sales.

Operating Expenses

Operating expenses for fiscal 2006 were $1,757,361 ($6.82 per boe) compared to $926,113 ($5.91 per boe) for fiscal 2005. The increase in overall operating expenses is the result of increased production volumes and the inflationary cost environment for oilfield services during 2006 as compared to 2005. For fiscal 2006, operating expenses were $7.59 per barrel for heavy oil, $13.68 per barrel for light oil and natural gas liquids and $0.77

per mcf for natural gas. During fiscal 2005, operating expenses were $6.01 per barrel for heavy oil and $0.97 per mcf for natural gas. The operating costs for light oil and natural gas liquids during 2006 were high due to additional costs related to the start-up of new production.

Processing Fees

Yoho pays fees to other operators for processing, gathering and compression of natural gas through third party facilities. Processing fees for fiscal 2006 were $290,227 ($1.13 per boe), compared to fees of $593,863 ($3.79 per boe) in fiscal 2005. The decrease in processing fees is the result of Yoho acquiring a working interest in a gas processing facility in July, 2005.

Transportation

Transportation expenses during fiscal 2006 were $217,948 ($0.85 per boe) compared to $173,016 ($1.10 per boe) during fiscal 2005. The decrease in transportation expense per boe is due to higher production in 2006 compared to 2005.

Operating Netbacks

	Light oil and NGLs ($/bbl)		Heavy Oil ($/bbl)		Natural gas ($/mcf)		BOE	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Sales price	**55.37**	-	**34.07**	29.03	**6.96**	7.84	**41.66**	38.38
Royalties	**(8.14)**	-	**(3.95)**	(2.64)	**(0.73)**	(0.96)	**(4.83)**	(4.26)
Operating costs	**(13.68)**	-	**(7.59)**	(6.01)	**(0.77)**	(0.97)	**(6.82)**	(5.91)
Processing	**-**	-	**-**	-	**(0.33)**	(1.21)	**(1.13)**	(3.79)
Transportation	**-**	-	**(3.04)**	(2.30)	**-**	-	**(0.85)**	(1.10)
Operating netback	**33.55**	-	**19.49**	18.08	**5.13**	4.70	**28.03**	23.32

General and Administrative Expenses

General and administrative expenses for 2006 were $689,222 ($2.67 per boe) compared to $489,365 ($3.12 per boe) for 2005. The increase in general and administrative expenses from 2005 is due to increased staff and activity levels during 2006. The decrease in general and administrative expenses per boe is the result of increased production during 2006. During 2006, a total of $652,000 (2005 – $323,000) of corporate expenses directly relating to exploration and development activities were capitalized.

Interest Expense

Interest expense for fiscal 2006 was $84,248 compared to $124,918 for the prior year. The decrease in interest expense is due to lower interest payable on the unspent proceeds of flow-though share issues during 2006 as compared to 2005.

Stock-based Compensation

During fiscal 2006, the Company expensed $304,362 and capitalized $225,094 of stock-based compensation related to outstanding stock options and warrants. The stock-based compensation expense for fiscal 2005 was $450,597. The decrease in stock-based compensation expense in fiscal 2006 is due to the increase in the capitalized portion compared to fiscal 2005.

Depletion, Depreciation and Accretion

The provision for depletion, depreciation and accretion for fiscal 2006 was $4,739,677 ($18.38 per boe) compared to $2,880,536 ($18.37 per boe) for fiscal 2005. The increase in depletion is the result of increased production volumes and an increase in the petroleum and natural gas properties subject to depletion.

The petroleum and natural gas properties were subject to a ceiling test at September 30, 2006. No write-down was required under this calculation.

Income Taxes

At September 30, 2006, Yoho had a total of $13.8 million of non-capital losses and $31.1 million of other tax pools available to reduce future taxable income and corporate income taxes. The reduction in future income tax for the year ended September 30, 2006 was $400,755, compared to a reduction of $1,065,600 for the fiscal 2006. The reduction in future income tax is the result of the recognition of the benefit of the non-capital losses that were previously unrecognized.

Under the flow-through share agreements entered into in January 2006 and June 2006, the Company is required to incur eligible expenditures for the total gross proceeds of $6.7 million prior to December 31, 2007. These expenditures will be renounced to the flow-through share investors effective December 31, 2006. As of September 30, 2006, a total of $5.9 million remains to be incurred on eligible expenditures.

Net Income

Net income for fiscal 2006 was $1,834,991 ($0.14 per share basic and $0.12 per share diluted). Increased charges for depletion, depreciation and accretion and general and administrative expenses during 2006 were offset by higher petroleum and natural gas sales and a reduction in future income tax. Net income for the period from December 23, 2004 to September 30, 2005 was $1,439,262 ($0.16 per share basic and diluted) and included a $584,107 gain on the sale of marketable securities and a reduction in future income tax.

Funds from Operations

Funds from operations during fiscal 2006 were $6,457,539 ($0.48 per share basic and $0.44 per share diluted), an increase of 107% from fiscal 2005. Funds from operations for the comparative period in 2005 were $3,120,648 ($0.34 per share basic and diluted). The increase in funds from operations during 2006 is the result of a full year of operations and higher production and operating netbacks.

	Year Ended September 30, 2006	Period from December 23, 2004 to September 30, 2005
Net income per boe		
Petroleum and natural gas sales	41.66	38.38
Royalties	(4.83)	(4.26)
Operating expenses	(6.82)	(5.91)
Processing fees	(1.13)	(3.79)
Transportation	(0.85)	(1.10)
Operating netback	28.03	23.32
General & administrative	(2.67)	(3.12)
Interest expense	(0.33)	(0.80)
Interest income	0.09	0.49
Current taxes	(0.01)	-
Funds from operations	25.11	19.89
Depletion, depreciation and accretion	(18.38)	(18.37)
Stock based compensation	(1.18)	(2.87)
Gain on sale of short-term investment	-	3.72
Future income taxes	1.55	6.79
Net income	7.10	9.16

Capital Expenditures

During the year ended September 30, 2006, Yoho has participated in drilling 33 (14.4 net) wells in the Peace River Arch area resulting in seven (3.2 net) exploration discoveries which were cased as oil wells, 17 (7.5 net) gas wells and nine (3.7 net) wells which were dry and subsequently abandoned. Yoho has acquired an additional 25,440 gross (19,968 net acres) of land during fiscal 2006 and acquired 160 km of 2D seismic data and shot a 60 sq. km 3D seismic program over the undeveloped land.

		Year Ended September 30, 2006		Period from December 23, 2004 to September 30, 2005
Land	$	**5,053,860**	$	2,680,934
Seismic		**2,153,385**		1,573,671
Drilling and completion		**12,230,420**		3,167,639
Equipment and facilities		**4,745,178**		2,886,983
Other assets		**775,043**		528,912
Total exploration and development		**24,957,886**		10,838,139
Corporate acquisitions		**356,100**		9,972,771
Total capital expenditures	$	**25,313,986**	$	20,810,910

On June 26, 2006, the Company acquired two companies from flow-through limited partnerships controlled by the Company's major shareholder for $356,100. These two companies had participated in the drilling of certain wells under a farm-in agreement with the Company and had earned working interests from the drilling of these wells under the farm-in agreement. The purchase price is subject to certain adjustments.

LIQUIDITY AND CAPITAL RESOURCES

The Company has in place bank credit facilities which allow borrowings up to $6,500,000 under a revolving operating demand loan for general corporate purposes including capital expenditures. The advances are due on demand and bear interest at bank prime rate plus ½ % per annum. The Company also has a Treasury Risk Line up to a maximum of $1,300,000 available for interest rate, foreign exchange and commodity prices risk management. This obligation is to be settled based on contract maturities payable from corporate cash flow. The credit facilities are secured by a $25,000,000 debenture with a floating charge over all assets and a negative pledge and undertaking to provide fixed charges on the Company's major producing petroleum and natural gas reserves. The credit facilities are subject to periodic review by the bank, with the next review before April, 2007.

In October, 2005, the Company completed a private placement financing of 140,000 units, at the price of $2.00 per unit for total proceeds of $280,000. Each unit consisted of one voting common share and a warrant (the "Warrants") to purchase a total of 92,226 voting common shares of the Company. The Warrants have an exercise price of $2.50, are to vest 30 months from the date of issuance and, upon vesting, are exercisable for a period of 30 days.

During December, 2005, Yoho completed a private placement financing of 572,590 flow-through common shares at a price of $6.96 per share for total net proceeds of $3,956,990. In January, 2006, Yoho completed an additional private placement of 177,410 flow-through common shares at a price of $6.96 per share for total proceeds of $1,234,774.

In June, 2006, the Company completed a private placement financing of 824,000 flow-through common shares at the price of $6.65 per share for total proceeds of $5,479,600. Under the flow-through share agreements, the Company is required to incur eligible expenditures for the total gross proceeds prior to December 31, 2007.

Yoho's fiscal 2006 capital expenditure program was funded by funds from operations, the equity issues and funds available through the credit facility. The Company actively manages the pace of its capital spending program by monitoring forecasted production and commodity prices and resulting funds generated by operations. Should circumstances affect funds generated from operations, Yoho is capable of adjusting its capital activity levels accordingly. The cash generated by funds from operations, future equity issues and funds available through the credit facility will allow Yoho to fund its planned capital expenditures for the next fiscal year.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

Yoho has various contractual obligations and commitments arising in the normal course of operations and financing activities. These obligations and commitments have been considered when assessing the cash requirements in the above discussion of future liquidity.

At September 30, 2006, the Company is committed to future payments for operating leases and gas transportation agreements for fiscal years as detailed below:

	2007	2008	2009	2010	2011
Office lease	259,503	273,250	273,250	273,250	296,021
Gas transportation agreements	116,897	43,582	11,766	-	-

Under the flow-through share agreements entered into in January 2006 and June 2006, the Company is required to incur eligible expenditures for the total gross proceeds of $6.7 million prior to December 31, 2007. These expenditures will be renounced to the flow-through share investors effective December 31, 2006. As of September 30, 2006, a total of $5.9 million remains to be incurred on eligible expenditures.

The Company's bank credit facilities are subject to periodic review, with the next review to be before April, 2007. Yoho does not expect any material changes to the bank credit facility as a result of this review.

The Company does not have any arrangements or obligations that are not reflected in the consolidated financial statements.

Subsequent to September 30, 2006, Yoho entered into a financial price collar for natural gas at a floor of $7.25 per GJ and a ceiling of $7.75 per GJ for 500 GJ per day for the period April to November, 2007. The Company also fixed the price of 500 GJ per day for December, 2006 at $8.01 per GJ.

RELATED PARTY TRANSACTIONS

A company controlled by an officer and director has a one percent overriding royalty on certain lands held by the Company. This arrangement results from consulting work that the officer and director's company performed on these properties previous to Yoho acquiring these lands in February 2005. The lands to which the overriding royalty is applicable are fixed by defined prospect boundaries and further land acquisitions by Yoho beyond those boundaries will not be subject to this overriding royalty. A total of $27,769 was incurred under this royalty agreement during the year ended September 30, 2006.

In July, 2005, Yoho entered into a farm-out agreement with flow-through limited partnerships controlled by the Company's major shareholder. The flow-through limited partnerships are in the business of incurring certain qualified expenditures and renouncing the related tax pools to their investors. Two companies under these flow-through limited partnerships participated in the drilling of certain wells under the farm-in agreement with the Company and had earned working interests from the drilling of these wells. The farm-out agreement was prepared on standard industry terms. On June 26, 2006, the Company acquired the two companies for $356,100. The purchase price is subject to certain adjustments.

Yoho also incurred a total of $61,200 of legal fees to a law firm in which one of the Company's directors is a partner. The legal fees related to general corporate matters and share issues during fiscal 2006.

The Company's related party transactions are also disclosed in note 11 to the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles requires management to make judgments and estimates that affect the financial results of Yoho. These critical estimates are discussed below.

Oil and Gas Accounting

Yoho follows the full-cost accounting guideline to account for its petroleum and natural gas operations. Under this method, all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized in one Canadian cost centre. These capitalized costs, along with estimated future development costs, are depleted and depreciated on a unit-of-production basis using estimated proved petroleum and natural gas reserves. By their inclusion in the unit-of-production calculation, reserve estimates are a significant component of the calculation of depletion and depreciation and site restoration expense.

Independent engineers engaged by the Company use all available geological, reservoir, and production performance data to prepare the reserve estimates. These estimates are reviewed and revised, either upward or downward, as new information becomes available. Revisions are necessary due to changes in assumptions based on reservoir performance, prices, economic conditions, government restrictions and other relevant factors. If reserve estimates are revised downward, net income could be affected by increased depletion and depreciation.

Impairment of Petroleum and Natural Gas Assets

Companies that use the full-cost method of accounting for oil and natural gas operations are required to perform a ceiling test that calculates a limit for the net carrying cost of petroleum and natural gas assets. The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). The ceiling test is a two-stage process. The first stage of the test is a recovery test which compares the undiscounted future cash flow from proved reserves at forecast prices plus the cost less impairment of unproved properties to the net book value of the petroleum and natural gas assets to determine if the assets are impaired. An impairment loss exists when the net book value of the petroleum and natural gas assets exceeds such undiscounted cash flow. The second stage determines the amount of the impairment loss to be recorded. The impairment is measured as the amount by which the net book value of the petroleum and natural gas assets exceeds the future discounted cash flow from proved plus probable reserves at forecast prices. If reserve estimates are revised downward, net income could be affected by any additional depletion and deprecation recorded under the ceiling test calculation and could result in a significant accounting loss for a particular period.

Asset Retirement Obligations

The amounts recorded for asset retirement obligations were estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to abandon and reclaim the wells and the facilities and the estimated time period during which these costs will be incurred in the future. Any changes to these estimates could change the amount recorded for asset retirement obligations and may materially impact the consolidated financial statements of future periods.

RISK AND RISK MANAGEMENT

The exploration for and the development, production and marketing of petroleum and natural gas involves a wide range of business and financial risks, some of which are beyond the Company's control. Included in these risks are the uncertainty of finding new reserves, the fluctuations of commodity prices, the volatile nature of interest

and foreign exchange rates, and the possibility of changes to royalty, tax and environmental regulations. The petroleum industry is highly competitive and the Company competes with a number of other entities, many of which have greater financial and operating resources.

Operational risks include drilling unsuccessful or uneconomic exploration and development wells, cost overruns, reservoir performance, safety and environmental concerns, access to cost effective contract services, product marketing and hiring and retaining qualified employees. The business risks facing the Company are mitigated in a number of ways. Geological, geophysical, engineering, environmental and financial analyses are performed on new exploration prospects, development projects and potential acquisitions to ensure a balance between risk and reward. Yoho employs a team of highly motivated and experienced staff skilled in managing these risks and uncertainties. Management is familiar with operations and has extensive experience working in the Company's primary area of operations, west central Alberta. The Company also maintains an insurance program commensurate with its levels and scope of operations to protect against loss from destruction of assets, pollution, blowouts or other losses.

Despite best practice analysis being conducted on all projects, there are numerous uncertainties inherent in estimating quantities of petroleum and natural gas reserves, including future oil and natural gas prices, engineering data, projected future rates of production and the timing of future expenditures. The process of estimating petroleum and natural gas reserves requires substantial judgment, resulting in imprecise determinations, particularly for new discoveries. An independent engineering firm evaluates the Company's properties annually to determine a fair estimate of reserves. The Reserves Committee, consisting of independent members of the Company's Board of Directors, assists the Board in their annual review of the reserves evaluation.

The provision for depletion and depreciation in the financial statements and the ceiling test are based on reserves estimates. Any future significant revisions could result in a full-cost accounting write-down or material changes to the annual rate of depletion and depreciation.

Financial risks include fluctuations in commodity prices, exchange rates and interest rates, all of which are beyond the control of the Company. Yoho has access to and, when considered prudent, will use various financial instruments and fixed price physical sales contracts to manage its exposure to these financial risks. The Company actively manages its working capital and debt positions. Yoho may be required to use future equity issues or increased levels of borrowing to maintain its financial position or raise funds necessary to carry out significant capital expenditure programs.

Yoho is subject to a variety of regulatory risks that it does not control. The Company has a safety first policy and maintains an Emergency Response Plan to effectively deal with operational or environmental matters that may arise. Government regulations are monitored on an ongoing basis to ensure the Company continues to be in compliance.

NEW ACCOUNTING PRONOUNCEMENTS

Financial Instruments

In January 2005, the CICA issued three new standards relating to the reporting of financial instruments in financial statements. These standards introduce new requirements for the recognition and measurement of financial instruments and comprehensive income. Section 3855, "Financial Instruments – Recognition and Measurement" requires that all financial instruments, including derivatives, are to be included on a company's balance sheet and measured, either at their fair values or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost. The standard also provides guidance on when gains and losses as a result of changes in fair values are to be recognized in the income statement.

The issuance of the new Section 3855 will result in amendments to Section 3860 "Financial Instruments – Disclosure and Presentation" to make the scope and definitions consistent with that of the new Section 3855,

including expanding the scope to include certain commodity-based contracts, and to update certain disclosures in light of the introduction of Section 3855 "Hedges", and extends the existing requirements for hedge accounting currently under AcG-13. This new section allows for the optional treatment of accounting for financial instruments that are designated as either fair value hedges, cash flow hedges or hedges of a net investment in a self-sustaining foreign operation. For a fair value hedge, the gain or loss on a derivative hedging item, or the gain or loss on a non-derivative hedging item attributable to the hedged risk, is recognized in net income in the period of change together with the offsetting loss or gain on the hedged item attributable to the hedged risk. The carrying amount of the hedged item is adjusted for the hedged risk. For a cash flow hedge, the effective portion of the hedging item's gain or loss is initially reported in other comprehensive income and subsequently reclassified to net income when the hedged item affects net income. For a hedge of a net investment in a self-sustaining foreign operation the same accounting is followed as for a cash flow hedge.

A new location for recognizing certain gains and losses – other comprehensive income – has been introduced with the issue of Section 1530, "Comprehensive Income". An integral part of the accounting standards on recognition and measurement of financial instruments is the ability to present certain gains and losses outside net income, in other comprehensive income. This standard requires that a company should present comprehensive income and its components in a financial statement displayed with the same prominence as other financial statements that constitute a complete set of financial statements, in both annual and interim financial statements. Exchange gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation, previously recognized in a separate component of shareholder's equity, in accordance with Section 1650, "Foreign Currency Translation", will now be recognized in a separate component of other comprehensive income.

These three new Handbook Sections have an effective date for Yoho's annual and interim periods in fiscal years beginning on October 1, 2006. Yoho is evaluating the impact the adoption of these new standards will have on its consolidated financial statements.

INTERNAL CONTOLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of Yoho are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has designed internal controls over financial reporting as of September 30, 2006. During the review of the design of internal controls over financial reporting it was noted that, due to the limited number of staff at Yoho, it is not feasible to achieve complete segregation of incompatible duties. However, other internal controls over financial reporting have been designed, which provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting; however, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Yoho is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as at September 30, 2006, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, including its consolidated subsidiaries, is made known to them by others within those entities. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

REVIEW OF FOURTH QUARTER

Production

Production for the three months ended September 30, 2006 averaged 895 boe per day, an increase of 79% from 501 boe per day during the comparative quarter in fiscal 2005. Total heavy oil production for the quarter decreased 31% to 162 barrels per day compared to 233 barrels per day in the corresponding quarter of 2005. The decrease is attributed to natural decline. Light oil and natural gas liquids production averaged 176 barrels per day for the three months ended September 30, 2006 compared to five barrels per day in the same period in 2005. Natural gas production for the fourth quarter 2006 was 3,340 mcf per day, an increase of 112% from 1,578 mcf per day for the same three month period in 2005. The increase is the result of added production from wells drilled throughout 2006.

Revenue

Petroleum and natural gas sales for the fourth quarter of fiscal 2006 increased 40% to $3,293,692 from $2,357,191 for the fourth quarter of fiscal 2005 due to increased production in 2006 compared to 2005.

During the fourth quarter of fiscal 2006, the Company received a net price of $38.63 per barrel for heavy oil, $61.65 per barrel for light oil, $52.66 per barrel for natural gas liquids and $5.77 per mcf for natural gas. The wellhead price received for the Company's heavy oil is impacted by the heavy oil differential and the price of diluent added to the heavy oil in the Seal area to meet pipeline specifications. The price received for natural gas liquids is lower than the light oil price due to the lower prices received for propane and butane. During the fourth quarter 2005, commodity prices received were $41.42 per barrel for heavy oil, $69.93 per barrel for light oil, and $9.98 per mcf for natural gas.

Royalties

Total royalties, net of ARTC, for the three months ended September 30, 2006 were $347,184 compared to $168,517 for the comparable period in 2005. Royalties for the fourth quarter were 10.5% of sales compared to 7.1% of sales for the comparable period in 2005. The new natural gas production during 2006 has a higher royalty rate and contributes to the increase in royalties as a percentage of sales.

Operating Expenses

Operating expenses for the three months ended September 30, 2006 were $293,848 ($3.57 per boe) compared to $327,321 ($7.10 per boe) for the corresponding quarter of 2005. The decrease in operating expense per boe is due to increased production during the fourth quarter of fiscal 2006. For the fourth quarter of fiscal 2006, operating expenses were $6.93 per barrel for heavy oil, $3.27 per barrel for light oil and natural gas liquids and $0.45 per mcf for natural gas. For the corresponding quarter in fiscal 2005 operating expenses were $7.27 per barrel for heavy oil and $1.04 per mcf for natural gas.

Processing Fees

Yoho pays fees to other operators for processing, gathering and compression of natural gas through third party facilities. Processing fees for the fourth quarter of fiscal 2006 were $150,593 ($1.83 per boe), compared to fees of $14,798 ($0.32 per boe) in the corresponding quarter of fiscal 2005. The increase in processing fees in the last fiscal quarter of 2006 is due to new gas production tied into third party facilities.

Transportation

Transportation expenses during the three months ended September 30, 2006 were $41,115 ($0.50 per boe) compared to $71,373 ($1.55 per boe) during the comparable period in 2005. The decrease in transportation expense per boe is due to higher production in 2006 compared to 2005.

General and Administrative Expenses

General and administrative expenses for the three months ended September 30, 2006 were $267,687 ($3.25 per boe) compared to $143,431 ($3.11 per boe) for the fourth fiscal quarter of 2005. The increase in general and administrative expenses is the result of increased activity in the fourth quarter of 2006. During the fourth fiscal quarter, a total of $229,000 (2005 – $323,000) of corporate expenses relating to exploration and development activities were capitalized.

Interest Expense

Interest expense for the three months ended September 30, 2006 was $15,435 compared to $96,323 for the three months ended September 30, 2005. The decrease in interest expense is due to lower interest payable on the unspent proceeds of flow-though share issues during the year.

Stock-based Compensation

During the three months ended September 30, 2006, the Company capitalized $255,094 in stock-based compensation expense related to exploration activities, resulting in a recovery of stock-based compensation of $126,116. The expense related to outstanding stock options and warrants in the same quarter of fiscal 2005 was $139,160. The decrease in stock-based compensation expense in fiscal 2006 is due to the increase in the capitalized portion compared to fiscal 2005.

Depletion, Depreciation and Accretion

The provision for depletion, depreciation and accretion for the fourth fiscal quarter of 2006 was $1,919,928 ($23.32 per boe) compared to $942,429 ($20.43 per boe) for the corresponding quarter of fiscal 2005. The increase in depletion is the result of increased production volumes and an increase in the petroleum and natural gas properties subject to depletion.

The petroleum and natural gas properties were subject to a ceiling test at September 30, 2006. No write-down was required under this calculation.

Income Taxes

The reduction in future tax for the three months ended September 30, 2006 was $1,470,243 compared to $1,126,007 for the three months ended September 30, 2005. The reduction in future income tax is the result of the recognition of the benefit of the non-capital losses that were previously unrecognized.

Net Income

The net income for the three months ended September 30, 2006 was $1,854,963 ($0.13 per share basic $0.12 per share diluted) compared to $1,606,033 ($0.13 per share basic and diluted) for the same period a year ago. Increased petroleum and natural gas sales and future income tax reduction for the three months ended September 30, 2006 were offset by higher charges for depletion, depreciation and accretion and for general and administrative expenses.

Funds from Operations

Funds from operations for the three months ended September 30, 2006 were $2,157,796 ($0.15 per share basic and $0.14 per share diluted) compared to $1,561,615 ($0.12 per share basic and diluted) for the three months ended September 30, 2005. The increase in funds from operations for the three months ended September 30, 2006 is due to increased production and higher crude oil prices compared to the corresponding period of fiscal 2005.

SUPPLEMENTAL QUARTERLY INFORMATION

The following tables summarize key financial and operating information for the periods indicated.

				Three Months Ended
	December 31, 2005	**March 31, 2006**	**June 30, 2006**	**September 30, 2006**
Petroleum and natural gas sales	2,239,282	2,244,104	2,962,488	3,293,692
Funds from operations	1,319,332	1,209,269	1,771,142	2,157,796
per share (basic)	0.10	0.09	0.13	0.15
per share (diluted)	0.10	0.08	0.12	0.14
Net income (loss)	342,211	(366,537)	4,354	1,854,963
per share (basic)	0.03	(0.03)	-	0.13
per share (diluted)	0.02	(0.03)	-	0.12
Capital expenditures	7,816,731	8,223,614	3,884,203	5,389,438
Total assets	39,934,521	41,986,748	43,081,922	46,639,058
Production (boe/d)	470	649	812	895

				Three Months Ended
	December 31, 2004 (1)	**March 31, 2005**	**June 30, 2005**	**September 30, 2005**
Petroleum and natural gas sales	178,234	1,595,241	1,887,918	2,357,191
Funds from operations	105,744	418,316	1,035,013	1,561,615
per share (basic)	0.08	0.04	0.09	0.12
per share (diluted)	0.08	0.04	0.09	0.12
Net income (loss)	3,360	32,265	(202,396)	1,606,033
per share (basic)	-	-	(0.02)	0.13
per share (diluted)	-	-	(0.02)	0.13
Capital expenditures	9,972,771	2,749,599	1,525,065	6,563,475
Total assets	24,997,971	23,435,965	25,626,711	29,127,571
Production (boe/d)	650	610	553	501

(1) The results for the three months ended December 31, 2004 include nine days of oil and gas operations from the acquisition of the 11 petroleum and natural gas companies on December 23, 2004. See notes 1 and 13 to the consolidated financial statements.

OUTLOOK

In December, 2006 Yoho entered into an agreement to acquire a limited partnership with natural gas producing properties in northeast British Columbia. The majority of the acquired properties are located in the Buick Creek, Mike and Siphon areas. The transaction is expected to close on or about December 31, 2006, effective the same day, and is subject to certain conditions, including financing and the completion of satisfactory due diligence. The purchase price, after estimated adjustments at closing, will be approximately $25.1 million. The acquisition will be funded by a combination of funds from a new equity issue and from bank debt.

Upon closing the acquisition of the British Columbia properties, Yoho's production will immediately increase to 1,450 boe per day. Yoho has an additional 150 to 175 boe per day temporarily shut in and an additional estimated 80 to 100 boe per day behind pipe with current completion operations ongoing.

Yoho plans to direct approximately $7.5 million of the Company's previously announced $31 million fiscal 2007 capital program to the acquired assets. The Company has identified 12 drilling locations on the acquired properties that will be included in Yoho's 2007 drilling program. Yoho also has identified a substantial inventory of other potential exploration and development opportunities that the Company will pursue beyond fiscal 2007.

Management's Report

Management, in accordance with Canadian generally accepted accounting principles, has prepared the accompanying consolidated financial statements of Yoho Resources Inc. Financial and operating information presented throughout this Annual Report is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP were appointed by the Yoho Resources Inc. shareholders to express an opinion on the consolidated financial statements. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the consolidated financial statements are presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises the responsibility through the Audit Committee, with assistance from the Reserves Committee regarding the annual review of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.

Wendy Woolsey

Brian A. McLachlan
President & Chief Executive Officer
December 11, 2006

Wendy S. Woolsey, CA
Vice President, Finance & Chief Financial Officer

Auditors' Report

To the Shareholders of Yoho Resources Inc.

We have audited the consolidated balance sheets of Yoho Resources Inc. as at September 30, 2006 and 2005 and the consolidated statements of operations and retained earnings and cash flows for the year ended September 30, 2006 and for the period from December 23, 2004 to September 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2006 and 2005 and the results of its operations and its cash flows for the year ended September 30, 2006 and for the period from December 23, 2004 to September 30, 2005 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
December 11, 2006

CONSOLIDATED BALANCE SHEETS

As at September 30, 2006 and 2005

	September 30, 2006	September 30, 2005 (notes 1 and 14)
Assets		
Current assets		
Cash	$ -	$ 2,724,468
Accounts receivable	4,185,818	3,807,229
	4,185,818	6,531,697
Petroleum and natural gas properties (note 3)	39,134,196	18,115,877
Future income taxes (note 9)	3,319,044	4,479,997
	$ 46,639,058	$ 29,127,571
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 8,039,017	$ 3,504,977
Bank loan (note 4)	791,241	-
	8,830,258	3,504,977
Asset retirement obligations (note 5)	876,286	592,169
Shareholders' Equity		
Share capital (note 6)	32,658,508	23,140,566
Contributed surplus (notes 6 and 7)	999,753	450,597
Retained earnings (notes 1, 6 and 14)	3,274,253	1,439,262
	36,932,514	25,030,425
	$ 46,639,058	$ 29,127,571

Commitments (note 13)

Subsequent events (note 15)

See accompanying notes to the consolidated financial statements.

On behalf of the Board

Gary Perron
Director

Terry Svarich
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Year Ended September 30, 2006
and Period from December 23, 2004 to September 30, 2005

	Year Ended September 30, 2006	Period from December 23, 2004 to September 30, 2005
		(notes 1 and 14)
Revenue		
Petroleum and natural gas sales	$ 10,739,566	$ 6,018,584
Royalties, net of Alberta royalty tax credit	(1,244,094)	(667,954)
Other income	23,534	661,440
	9,519,006	6,012,070
Expenses		
Operating	1,757,361	926,113
Processing fees	290,227	593,863
Transportation	217,948	173,016
General and administrative	689,222	489,365
Interest	84,248	124,918
Stock-based compensation (note 7)	304,362	450,597
Depletion, depreciation and accretion	4,739,677	2,880,536
	8,083,045	5,638,408
Income before income taxes	1,435,961	373,662
Taxes (reduction)		
Current	1,725	-
Future (note 9)	(400,755)	(1,065,600)
	(399,030)	(1,065,600)
Net income	1,834,991	1,439,262
Retained earnings (deficit), beginning of period	1,439,262	(44,141,062)
Adjustment to deficit on corporate reorganization (notes 1 and 14)	-	128,707
Reduction of deficit under reorganization (notes 1 and 6)	-	44,012,355
Retained earnings, end of period	$ 3,274,253	$ 1,439,262
Net income per share (note 8)		
Basic	$ 0.14	$ 0.16
Diluted	$ 0.12	$ 0.16

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended September 30, 2006
and Period from December 23, 2004 to September 30, 2005

Cash provided by (used in):	Year Ended September 30, 2006	Period from December 23, 2004 to September 30, 2005
		(notes 1 and 14)
Operating activities		
Net income	$ 1,834,991	$ 1,439,262
Items not affecting cash:		
Stock-based compensation	304,362	450,597
Depletion, depreciation and accretion	4,739,677	2,880,536
Future tax	(421,491)	(1,065,600)
Gain on sale of marketable securities	-	(584,107)
	6,457,539	3,120,688
Change in non-cash working capital	1,315,505	(1,107,824)
	7,773,044	2,012,864
Financing activities		
Issuance of share capital for cash, net of issue costs	10,971,416	13,041,546
Increase in bank loan	791,241	-
Payment of notes payable	-	(4,500,000)
Payment of amount due to shareholder (note 11)	-	(1,050,000)
	11,762,657	7,491,546
Investing activities		
Petroleum and natural gas property expenditures	(25,100,115)	(9,838,139)
Proceeds on sale of marketable securities	-	2,389,757
Change in non-cash working capital	2,839,946	668,440
	(22,260,169)	(6,779,942)
Change in cash during the period	(2,724,468)	2,724,468
Cash, beginning of period	2,724,468	-
Cash, end of period	$ -	$ 2,724,468

See accompanying notes to the consolidated financial statements.

Supplemental cash flow information (note 12)

expected settlement of the retirement obligations. The related accretion expense is recognized in the statement of operations. The provision will be revised for any changes to timing related to cash flow or undiscounted abandonment costs. Actual expenditures incurred for the purpose of site reclamation are charged to the asset retirement obligations to the extent that the liability exists on the balance sheet. Differences between the actual costs incurred and the fair value of the liability recorded are recognized in income in the period incurred.

Future Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized, at substantively enacted rates, for differences between the amount reported for financial statement purposes and their respective tax basis. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs. A valuation allowance is recorded against any future income tax assets if it is more likely than not the asset will not be realized.

Flow-through Shares

The Company has financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditure are renounced to the subscribers. The estimated tax benefits transferred to shareholders are recorded through the future income tax asset or liability at the time of renunciation and as a reduction in share capital.

Revenue Recognition

Revenues from the sale of crude oil, natural gas and natural gas liquids owned by the Company are recognized when title passes from the Company to its customers.

Derivative Financial Instruments

The Company may enter into financial instruments and forward sales contracts to manage its exposure to fluctuations in commodity prices, interest rates and foreign exchange rates. The Company does not use financial instruments for trading or speculative purposes. Financial instruments used as hedging transactions must be documented and it must be demonstrated that the hedges are sufficiently effective in order to continue accrual accounting for positions hedged with financial instruments. Financial instruments that do not qualify for hedge accounting are recognized in the balance sheet and measured at fair value, with changes in fair value reported separately in the statement of operations as income or expense.

Stock-based Compensation

The Company records compensation expense in the consolidated financial statements for stock options and warrants granted to directors, employees and consultants using the fair value method. Fair values are determined using the Black Scholes option pricing model and assumptions regarding interest rates, underlying volatility of the Company's stock and expected life of the options and warrants are made. Compensation costs are recognized over the vesting period.

Per-share Amounts

Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if stock options or warrants were exercised. The treasury stock method is used to determine the dilutive effect of stock options and warrants, whereby any proceeds from the exercise of these or other dilutive instruments are assumed to be used to purchase shares at the average market price during the period.

3. PETROLEUM AND NATURAL GAS PROPERTIES

	September 30, 2006	September 30, 2005
Petroleum and natural gas properties	$ 46,643,819	$ 20,956,069
Accumulated depletion and depreciation	(7,509,623)	(2,840,192)
	$ 39,134,196	$ 18,115,877

In calculating the depletion and depreciation provision for the year ended September 30, 2006, $6.8 million of costs (2005 - $3.9 million) relating to undeveloped properties were excluded from costs subject to depletion and depreciation. The calculation of 2006 depletion and depreciation included an estimated $1.8 million (2005 - $1.1 million) for future development capital associated with the proved undeveloped reserves. During the year ended September 30, 2006, a total of $1.0 million (2005 - $322,594) of corporate expenses relating to exploration and development activities were capitalized.

The petroleum and natural gas properties are subject to a ceiling test, which was calculated at September 30, 2006 using the following benchmark reference prices for the years 2007 to 2011 adjusted for commodity differentials and transportation costs specific to the Company:

	2007	2008	2009	2010	2011
Edmonton ($Cdn/bbl)	70.50	64.00	57.25	53.00	53.00
Heavy crude (12API) at Hardisty ($Cdn/bbl)	41.75	38.50	35.00	33.25	33.75
Alberta Plant Gate ($Cdn/mcf)	7.15	7.50	7.30	6.80	6.45

The prices and costs subsequent to 2011 have been adjusted for inflation at an annual rate of two percent.

4. BANK CREDIT FACILITIES

The Company has in place bank credit facilities which allow borrowings up to $6,500,000 under a revolving operating demand loan for general corporate purposes including capital expenditures. The advances are due on demand and bear interest at bank prime rate plus 0.5% per annum. The Company also has a Treasury Risk Line up to a maximum of $1,300,000 available for interest rate, foreign exchange and commodity prices risk management. This obligation is to be settled based on contract maturities payable from corporate cash flow. The credit facilities are secured by a $25,000,000 debenture with a floating charge over all assets and a negative pledge and undertaking to provide fixed charges on the Company's major producing petroleum and natural gas reserves. The credit facilities are subject to periodic review by the bank, with the next review to be before April, 2007.

5. ASSET RETIREMENT OBLIGATIONS

	September 30, 2006	September 30, 2005
Balance, beginning of period	$ 592,169	$ -
Liabilities incurred	213,871	552,303
Accretion	70,246	39,866
Balance, end of period	$ 876,286	$ 592,169

The Company's asset retirement obligations are based on the Company's net ownership in wells and facilities. Management estimates the costs to abandon and reclaim the wells and the facilities and the estimated time period during which these costs will be incurred in the future. These costs are expected to be incurred over the next 15 years, with the majority of the costs incurred between 2010 and 2014. The undiscounted amount of estimated cash flow required to settle the retirement obligations at September 30, 2006 is $1.7 million. The inflation rate used in the calculation was 2%. The estimated cash flow has been discounted at a credit-adjusted risk free rate of 9%.

6. SHARE CAPITAL

Pursuant to the Plan of Arrangement (note 14), the Company was continued under the Business Corporations Act (Alberta), which continuation included the deletion of the common shares from the Articles which were also amended to include a new class of non voting common shares and a new class of voting common shares. Existing shareholders exchanged each common share of the Company held by them for one share of VIQ Solutions and 0.012877 new common shares of the Company, resulting in a consolidation of the common shares of the Company.

Authorized

An unlimited number of voting common shares and an unlimited number of non voting common shares.

Issued

Voting Common Shares:	Number of shares		Amount
Balance, October 1, 2004	36,372,804	$	41,657,844
Issued for cash upon exercise of warrants	100,000		25,000
Issued for cash upon exercise of options	471,300		70,695
Surrendered for cancellation	(167,794)		-
Consolidation of voting common shares, December 23, 2004	(36,302,705)		-
Issued to creditors under CCAA settlement	156,250		312,500
Reduction of deficit under corporate reorganization (note 14)	-		(42,066,039)
Issued for cash upon private placement, net of expenses	3,958,000		7,818,000
Flow-through shares issued for cash	1,250,000		3,000,000
Tax effect of flow-through shares	-		(1,128,600)
Issued for asset purchase	500,000		1,000,000
Balance September 30, 2005	6,337,855		10,689,400
Issued for cash upon private placement	140,000		280,000
Issued on exercise of stock options	16,666		33,332
Transfer from contributed surplus on exercise of stock options	-		10,300
Flow-through shares issued for cash upon private placement	1,574,000		10,658,084
Tax effect of flow-through shares	-		(1,463,774)
Balance September 30, 2006	8,068,521	$	20,207,342

Non-Voting Common Shares:	Number of shares		Amount
Issued for cash upon private placement, net of expenses	1,155,273	$	2,286,546
Issued on corporate acquisitions	5,082,310		10,164,620
Balance September 30, 2005 and 2006	6,237,583	$	12,451,166

Total Common Shares:	Number of shares		Amount
Balance September 30, 2006	14,306,104	$	32,658,508

In October, 2005, the Company completed a private placement financing to employees of 140,000 units, at the price of $2.00 per unit for total proceeds of $280,000. Each unit consisted of one voting common share and a warrant (the "Warrants") to purchase a total of 92,226 voting common shares of the Company. The Warrants have an exercise price of $2.50, are to vest 30 months from the date of issuance and, upon vesting, are exercisable for a period of 30 days.

In December, 2005, the Company completed a private placement financing of 572,590 common shares on a flow-through basis at $6.96 per share for gross proceeds of $3,985,226. Certain officers and directors of the Company acquired 139,590 common shares under this private placement. At September 30, 2006, the Company had fulfilled its commitments under this flow-through share issue.

In January, 2006, the Company completed a private placement financing to its major shareholder of 177,410 flow-through common shares at the price of $6.96 per share for total proceeds of $1,234,774. Under the flow-through share agreements, the Company is required to incur eligible expenditures for the total gross proceeds prior to December 31, 2007.

In June, 2006, the Company completed a private placement financing of 824,000 flow-through common shares at the price of $6.65 per share for total proceeds of $5,479,600. Under the flow-through share agreements, the Company is required to incur eligible expenditures for the total gross proceeds prior to December 31, 2007. Certain officers, directors, employees and insiders of the Company acquired 394,000 common shares under this private placement.

Contributed Surplus		September 30, 2006		September 30, 2005
Balance, beginning of year	$	450,597	$	1,939,913
Adjustment for corporate reorganization (notes1 and 14)		-		(1,939,913)
Stock based compensation		559,456		450,597
Transfer to share capital on exercise of stock options		(10,300)		-
Balance, end of year	$	999,753	$	450,597

Warrants	Number of warrants		WeightedAverage Exercise Price	Weighted Average Remaining Term
Balance, October 1, 2004	-		-	-
Granted	1,000,000	$	2.50	1.1 years
Balance September 30, 2005	1,000,000	$	2.50	1.1 years
Granted	92,226	$	2.50	1.5 years
Balance September 30, 2006	1,092,226	$	2.50	1.1 years
Number Exercisable at September 30, 2006				

In May 2005, the Company completed a private placement financing of 1,033,000 units at a price of $2.00 per share for total gross proceeds of $2,066,000. Also issued as part of the private placement were 1,000,000 warrants to purchase a total of 1,000,000 voting common shares of the Company. The warrants have an exercise price of $2.50, are exercisable on or after November 13, 2007 and expire on December 13, 2007.

In October 2005, the Company completed a private placement financing of 140,000 units at a price of $2.00 per share for total gross proceeds of $280,000. Also issued as part of the private placement were 92,226 warrants to purchase a total of 92,226 voting common shares of the Company. The warrants have an exercise price of $2.50, are exercisable on or after April 7, 2008 and expire on May 7, 2008.

Share Option Plan

Effective December 23, 2004, a new share option plan was adopted by the Company. All options outstanding under the former plan were immediately cancelled. A committee appointed by the Board of Directors may from time to time designate bona fide directors, employees and consultants of the Company and its subsidiaries to whom options to purchase voting common shares of the Company may be granted and the number of voting common shares to be optioned to each. Under the plan, the number of shares reserved for issuance pursuant to the exercise of all options may not exceed 10% of the issued and outstanding shares on a non diluted basis at any time. The options granted have a term of five years from date of grant and vest as to one-third on each of the first, second, and third anniversaries of the date of grant.

Stock Options	Number of options		Weighted average exercise price
Balance December 23, 2004	-		-
Granted	1,105,000	$	2.00
Balance September 30, 2005	1,105,000		
Granted	260,000	$	2.67
Exercised	(16,666)	$	2.00
Expired	(33,334)	$	2.00
Balance September 30, 2006	1,315,000	$	2.13
Number Exercisable at September 30, 2006	661,665	$	2.00

The following table summarizes stock options outstanding and exercisable under the plan at September 30, 2006.

	Options outstanding				Options exercisable		
Exercise price	Number outstanding at year end	Weighted average remaining contractual life		Weighted average exercise price	Number exercisable at year end		Weighted average exercise price
$2.00	1,255,000	3.5 years	$	2.00	661,665	$	2.00
$4.90	60,000	4.8 years	$	4.90	-		-

Reduction in Deficit

The opening deficit, contributed surplus and cumulative foreign currency adjustments have been eliminated against share capital under the corporate reorganization (notes 1 and 14).

7. STOCK-BASED COMPENSATION

The Company has recorded stock-based compensation for all stock options and warrants granted. The compensation expense is calculated based upon the fair value of stock options and warrants on the date of the grant using the Black-Scholes option pricing model using the following assumptions: expected volatility of 58% (2005 - 50%), risk-free interest rate of 6.5%; expected life of 4 years and expected future dividends of nil. The compensation expense is recognized over the vesting period of the stock options and warrants. During the year ended September 30, 2006, $304,362 (2005 - $450,597) was recognized as stock-based compensation expense and $255,094 (2005 – nil) of stock based compensation exploration and development activities was capitalized, each with a corresponding increase to contributed surplus.

8. NET INCOME PER SHARE

The Company applies the treasury stock method to assess the dilutive effect of outstanding stock options and warrants on net income per share. Basic net income per share is calculated using net income and the weighted average number of common shares outstanding. Diluted net income per share is calculated using net income and the weighted average number of diluted common shares outstanding. There was no dilutive effect of the stock options and warrants outstanding for the period ended September 30, 2005 as the respective exercise prices did not exceed the average price of the shares during the period.

	Year ended September 30, 2006	Period from December 23, 2004 to September 30, 2005
Weighted average number of common shares outstanding	13,500,219	9,124,107
Dilutive effect of stock options and warrants	1,329,190	
Weighted average number of diluted common shares outstanding	14,829,409	9,124,107

9. FUTURE TAX

The provision for future tax differs from the result which would be obtained by applying the combined Canadian federal and provincial statutory income tax rate as follows:

	Year ended September 30, 2006	Period from December 23, 2004 to September 30, 2005
Income before income taxes	$ 1,435,961	$ 373,662
Expected income taxes at the statutory rate of 35.32% (2005 - 38.4%)	$ 507,181	$ 143,486
Increase (decrease) in taxes resulting from:		
Non-deductible Crown royalties	176,215	154,230
Resource allowance	(254,008)	(216,004)
Stock-based compensation	107,501	173,029
Gain on sale of marketable securities	-	(224,297)
Effect of change in tax rate	684,738	-
Effect of change in valuation allowance	(1,571,005)	(1,070,798)
Other	(51,377)	(25,246)
Provision for future tax	$ (400,755)	$ (1,065,600)

The components of future income taxes are as follows:

	September 30, 2006	September 30, 2005
Non-capital losses	$ 4,616,114	$ 6,367,978
Capital losses	896,263	1,113,890
Scientific research and experimental development	745,725	1,431,780
Share issue costs	225,712	204,542
Shortfall of tax bases of petroleum and natural gas assets over carrying value	(2,542,990)	(2,027,280)
Asset retirement obligation	278,220	205,187
Valuation allowance	(900,000)	(2,816,100)
Future income tax asset	$ 3,319,044	$ 4,479,997

At September 30, 2006, the Company has available prior years' losses of $13.8 million. These losses are available to reduce taxable income in future years and, if not utilized, will expire as follows:

2007	$	122,000
2008		7,770,000
2009		520,000
2010		1,538,000
2014		3,850,000
	$	13,800,000

10. FINANCIAL INSTRUMENTS

(a) Commodity price risk management

There were no financial instruments in place to manage commodity prices during the year ended September 30, 2006.

(b) Foreign currency exchange risk

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices received are referenced to U.S. dollar denominated prices.

(c) Credit risk

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the oil and natural gas industry and are subject to normal industry credit risks. Purchasers of the Company's crude oil, natural gas and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

(d) Interest rate risk

The Company is exposed to interest rate risk to the extent that the bank debt is based on a floating rate of interest.

(e) Fair value of financial instruments

The fair values of accounts receivable, prepaid expenses and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturities. The Company's bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

11. RELATED PARTY TRANSACTIONS

The Company enters into various transactions with related parties. These transactions entered into in the normal course of business and are measured at the exchange amount established and agreed to by the related parties. During the year ended September 30, 2006, the Company had the following related party transactions:

A total of $61,200 (2005 – $260,070) of legal fees related general legal matters and share issue costs were incurred to a law firm in which one of the Company's directors is a partner.

A total of $27,769 (2005 - $800) was incurred to a company controlled by an officer and director in payment of a gross overriding royalty on certain Company lands.

Company employees participated in a private placement financing of 140,000 units, consisting of one voting common share and a warrant to purchase a total of 92,226 voting common shares of the Company. Certain officers, directors, employees and insiders of the Company acquired a total of 711,000 flow-through common shares under private placement financings during 2006 (note 6).

On June 26, 2006, the Company acquired two companies from flow-through limited partnerships controlled by the Company's major shareholder for $356,100. These two companies had participated in the drilling of certain wells under a farm-in agreement with the Company and had earned working interests from the drilling of these wells under the farm-in agreement. The purchase price is subject to certain adjustments.

During the period from December 23, 2004 to September 30, 2005, the following related party transactions were entered into:

During 2005, management and employees participated in private placement financings at a price of $2.00 per share. Also 1,000,000 warrants to purchase a total of 1,000,000 voting common shares of the Company were issued to management and employees as part of the May, 2005 private placement.

As part of the acquisition of the JV companies (note 14), an amount was due to a shareholder consisting of demand promissory notes totaling $1,050,000. The amount due to shareholder was paid during the period ended September 30, 2005.

12. SUPPLEMENTAL CASH FLOW INFORMATION

During the period the Company made the following cash outlays in respect of interest expense and income taxes.

		Year ended September 30, 2006		Period from December 23, 2004 to September 30, 2005
Interest	$	47,853	$	29,622
Income taxes	$	1,725	$	32,617

13. COMMITMENTS

At September 30, 2006, the Company is committed to future payments for operating leases and gas transportation agreements for fiscal years as detailed below:

	2007	2008	2009	2010	2011
Office lease	259,503	273,250	273,250	273,250	296,021
Gas transportation agreements	116,897	43,582	11,766		

Under the flow-through share agreements entered into in January 2006 and June 2006, the Company is required to incur eligible expenditures for the total gross proceeds of $6.7 million prior to December 31, 2007. These expenditures will be renounced to the flow-through share investors effective December 31, 2006. As of September 30, 2006, a total of $5.9 million remains to be incurred on eligible expenditures.

14. CORPORATE REORGANIZATION

On December 23, 2004, pursuant to the Plan of Arrangement, all of the Company's voice capture, digitization and compression assets and business were transferred to VIQ Solutions at a purchase price of $2,849,647. The purchase price was paid through the issuance of 36,776,310 shares of VIQ Solutions to the Company. These shares were subsequently distributed to the existing shareholders of the Company on that date. The following is a summary of the transaction:

Net assets transferred:		
Cash	$	236,234
Accounts receivable		517,577
Fixed assets		321,847
Outstanding shares of Voice IQ Australia Pty Limited		800,000
Intercompany loan receivable from VoiceIQ Australia Pty Limited		1,750,386
Intangible assets		400,000
Prepaid expenses and deposits		56,669
Accounts payable and accrued liabilities		(633,872)
Deferred revenue		(232,766)
Liabilities of the Company not compromised under the CCAA		(292,000)
Future obligations		(74,428)
Total purchase price	$	2,849,647

All of the liabilities noted above, to the extent not compromised under the CCAA, have been assumed by VIQ Solutions pursuant to the Arrangement and VIQ Solutions has indemnified the Company in respect of these obligations and any other liabilities related to the former technology business of the Company.

Selected financial information for the pre-reorganization operations is summarized below:

		Period Ending December 23, 2004
Gross revenue	$	2,711,101
Results of pre-reorganization operations:		
Net loss from pre-reorganization operations, net of tax of nil		(525,932)
Net gain on creditor settlement under CCAA, net of tax of nil		1,653,699
Assets and liabilities transferred under corporate reorganization, net of tax of $nil		(999,060)
Adjustment to deficit on corporate reorganization	$	128,707

Acquisition of Oil and Gas Companies

On December 23, 2004, the Company acquired all of the issued and outstanding shares of 960330 Alberta Ltd., 960331 Alberta Ltd., 960332 Alberta Ltd., 960333 Alberta Ltd., 960334 Alberta Ltd., Edam Joint Venture Ltd., Atlee Joint Venture Ltd., Sousa Joint Venture Ltd., Hamilton Lake III Joint Venture Ltd., Basset Lake Joint Venture Ltd. and Basset Lake III Joint Venture Ltd. (the "JV companies") and commenced operations as a petroleum and natural gas exploration and development company operating in western Canada. Nine of these companies were subsequently wound-up into Yoho.

The acquisitions were accounted for under the purchase method and their operations have been included from the date of acquisition. The estimated fair value of the assets acquired and liabilities assumed at the date of acquisition is summarized below.

Petroleum and natural gas properties	$	9,972,771
Current assets		3,073,130
Future income tax asset		4,479,997
Current liabilities		(1,704,612)
Asset retirement obligation		(406,666)
Total net assets acquired	$	15,414,620

Financed by:		
Issue of 5,082,310 non-voting common shares at fair value	$	10,164,620
Issue of notes payable		4,500,000
Costs associated with acquisition		750,000
Total purchase price	$	15,414,620

The notes payable, issued to former shareholders of the JV companies, were repaid in January 2005.

15. SUBSEQUENT EVENTS

In November, 2006, the Company entered into a financial price collar for natural gas at a floor of $7.25 per GJ and a ceiling of $7.75 per GJ for 500 GJ per day for the period from April, 2007 to November, 2007. The Company also fixed the price of 500 GJ per day for December, 2006 at $8.01 per GJ.

On December 6, 2006, the Company entered into an agreement to acquire a limited partnership with natural gas producing properties in northeast British Columbia. The transaction is expected to close on or about December 31, 2006, effective the same day, and is subject to certain conditions, including financing and the completion of satisfactory due diligence. The purchase price, after estimated adjustments at closing, will be approximately $25.1 million. The acquisition will be funded by a combination of funds from a new equity issue and from bank debt.

CORPORATE INFORMATION

Brian A. McLachlan, P.Geol
President and Chief Executive Officer

Clark W. Drader
Vice President, Land

Barry J. Stobo, P.Eng
Vice President, Engineering
and Chief Operating Officer

Wendy S. Woolsey, CA
Vice President, Finance
and Chief Financial Officer

Terry Svarich, **Chairman**
Bruce Allford
Peter Kurceba
Brian McLachlan
Kevin Olson
Gary Perron

KPMG LLP

National Bank of Canada

GLJ Petroleum Consultants

Burnet Duckworth & Palmer LLP

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barrel
thousands of barrels
thousand cubic feet
million cubic feet
barrels of oil equivalent (6:1) *
thousand barrels of oil equivalent
barrels of oil equivalent per day
barrels per day
thousand cubic feet per day

In conformity with National Instrument 51-101, standards for Disclosure for Oil and Gas Activities ("NI 51-101), natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that the term "boe" may be misleading, particularly if used in isolation.

Summary of Quarterly Operating and Financial Results

	Three Months Ended			
	December 31, 2005	March 31, 2006	June 30, 2006	September 30, 2006
Petroleum and natural gas sales	2,239,282	2,244,104	2,962,488	3,293,692
Funds from operations (1)	1,319,322	1,209,269	1,771,142	2.157.796
per share (basic)	0.10	0.09	0.13	0.15
per share (diluted)	0.10	0.08	0.12	0.14
Net income (loss)	342,211	(366,537)	4,354	1,854,963
per share (basic)	0.03	(0.03)	-	0.13
per share (diluted)	0.02	(0.03)	-	0.12
Capital expenditures	7,816.731	8,223,614	3,884,203	5,389,438
Total assets	39,934,521	41,986,748	43,081,922	46,639,058
Heavy oil (bbls/d)	192	205	227	162
Light oil and NGL (bbls/d)	41	96	113	176
Natural gas (mcf/d)	1,423	2,089	2,834	3,340
BOE (boe/d)	470	649	812	895
Heavy oil ($/bbl)	28.15	25.45	43.54	38.63
Light oil ($/bbl)	63.91	59.58	70.52	61.65
NGL ($/bbl)	61.63	52.65	47.68	52.66
Natural gas ($/mcf)	11.48	7.21	5.88	5.77
Operating Netback and Funds from Operations per boe				
Petroleum and natural gas sales	51.80	38.44	40.09	40.01
Royalties	(7.86)	(5.01)	(3.59)	(4.22)
Operating expenses	(8.11)	(9.18)	(7.82)	(3.57)
Processing fees	(0.16)	(0.60)	(1.33)	(1.83)
Transportation	(1.42)	(1.36)	(0.48)	(0.50)
Field netback	34.26	22.30	26.88	29.90
General and administrative expenses	(3.94)	(1.36)	(2.33)	(3.25)
Interest, net	0.19	(0.23)	(0.58)	(0.18)
Funds from operations	30.52	20.72	23.97	26.47
Number of shares outstanding				
Weighted Average				
Basic	12,733,909	13,427,985	13,547,767	14,306,104
Diluted	13,796,223	14,861,123	14,841,133	15,726,743
End of period				
Basic	12,575,438	13,465,438	14,306,104	14,306,104
Diluted	14,972,664	15,862,664	16,653,330	16,713,330

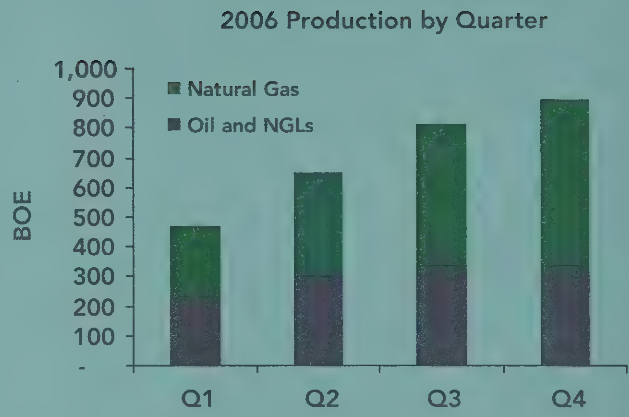
(1) Funds from operations and funds from operations per share are not measurements based on generally accepted accounting principles ("GAAP"), but are financial terms commonly used in the oil and gas industry. The Company's funds from operations is detailed on the Consolidated Statement of Cash Flow and may not be comparable to other companies.

Operating netbacks do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Operating netbacks are determined by deducting royalties, operating, processing and transportation expenses from petroleum and natural gas sales.

Yoho Resources Inc. is a Calgary-based oil and gas exploration company operating within the Western Canadian Sedimentary Basin, focusing on the Peace River Arch and northeastern British Columbia.

President's Message

Last year we set out a strategy for Yoho's growth, which included a focused exploration program on our land in the Peace River Arch, augmented with acquisition opportunities. During fiscal 2006, Yoho accomplished the following:



- Increased our net undeveloped land position from 30,000 acres to 56,000 acres.
- Continued to build a substantial seismic database over the undeveloped lands for future exploration and development.
- Increased production from approximately 500 barrels of oil equivalent (boe) per day one year ago to more than 900 boe per day with an additional 300 boe per day behind pipe awaiting facilities. All of this growth was accomplished through our drilling programs.
- Added substantially to our inventory of potential investment opportunities with an ongoing effort to increase operatorship and working interests in our projects.
- Increased our reserves base by 155% on a proven and probable basis, with a reasonable onstream cost of $17.05 per boe including future development capital.
- Reduced operational costs (operating, processing, transportation, G&A, and interest expense) 18% on a per boe basis to $11.71 per boe in fiscal 2006 from $14.23 per boe in fiscal 2005.
- Exited 2006 with a very healthy balance sheet of $4.5 million in total debt, which represents debt/trailing cash flow based on the fourth quarter of 0.5:1.
- Subsequent to year end the Company acquired properties in northeast British Columbia. These properties will make up Yoho's second core area of operations, which was a stated goal of the Company one year ago.

With the acquisition of the British Columbia properties, which closed in December 2006, Yoho now has the following attributes:

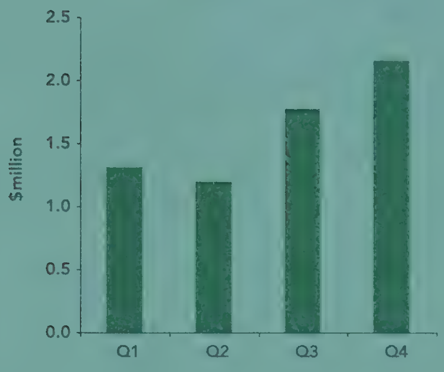
- 80,000 net undeveloped acres.
- 1,600 km of 2D seismic data and 198 sq. km of 3D seismic data.

- Production of 1,400 boe per day with 300 boe per day behind pipe expected to come onstream in the first and second calendar quarters of 2007.
- Combined reserves (GLJ Petroleum Consultants Ltd. October 1, 2006 price) of 3.4 million boe (proven plus probable).
- Operations in two very focused core areas with medium depth, medium risk multi-zone drilling potential.
- A substantial inventory of drilling prospects and geological leads in both core areas.
- Current outstanding shares of 17.2 million and 19.6 million on a diluted basis.

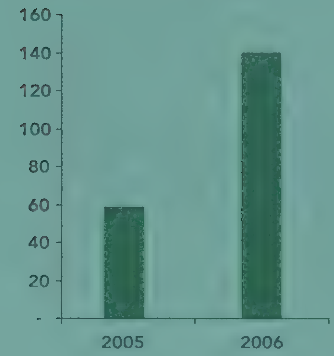
As we go forward into 2007, the challenges that Yoho will need to manage include:

- Rapidly declining natural gas prices, at least in the short term. We saw natural gas pricing at AECO decline from approximately $8.00 per GJ to almost $6.00 per GJ over the last month of 2006.
- Reduction in the ability to access capital on good terms. Very recently capital markets have pulled back, particularly in the junior oil and gas sector.
- Ever increasing regulatory intervention in all aspects of our business, which continues to cause substantial delays and increased general and administrative expenses.
- Access to required infrastructure to bring newly discovered natural gas onstream in a timely manner. This continues to be a problem for the small producer.
- Inflated service costs, which are currently not "in sync" with commodity prices. This continues to be a large draw on available capital.

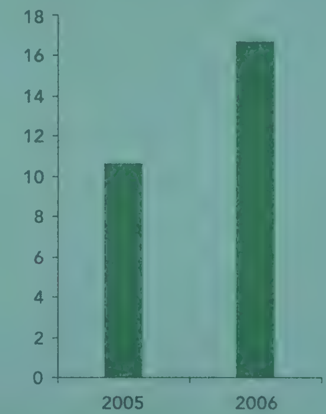
Funds from Operations by Quarter



Proved plus Probable Reserves (BOE) per Thousand Shares



Production (BOE) per Thousand Shares



Going forward, Yoho's excellent team of professionals and support staff meets these challenges daily with creativity and enthusiasm. We are confident we will work through these obstacles to reach our goals.

Growth is key to junior exploration and production companies. Yoho will continue to attract quality shareholders by exposing their investment to substantial growth opportunity. We have now accomplished the third stage of our growth plan by establishing a second significant core area in northeast British Columbia. The next part of our plan will expose Yoho to opportunities that can accelerate growth for the Company. The type of opportunity that can accomplish accelerated growth will come to the Company in two forms:

- Firstly, Yoho plans to establish an inventory of higher reward exploration prospects during 2007. Usually, higher reward prospects are higher risk and often more expensive and remote. Our expectations are to have several of these projects drill-ready by late 2007 or early 2008. Yoho will allocate a small percentage of the 2008 capital budget to these projects. Successful participation in a discovery of this magnitude would move Yoho into the next "level"of resource company.
- The second type of opportunity will come sooner, in the form of acquisitions or mergers. We expect opportunities for business combinations and acquisitions to be the highest in several years due to declining gas prices, which have followed a very aggressive capital spending cycle in the Western Canadian Sedimentary Basin. We expect that many of these opportunities will come to us early in 2007 and Yoho will analyze all opportunities carefully. If we see accretive opportunities for our shareholders, we will pursue those opportunities aggressively.

At the same time as we are building higher reward prospect inventory and evaluating merger and acquisition opportunities, Yoho will continue to grow in the same manner as we have over the past 18 months, pursuing quality exploration and development activities in our core area of the Peace River Arch and our new core area of northeast British Columbia.

I would like to thank our dedicated and talented staff for the progress we have made to date, and to thank you, our shareholders, for participating in our vision of building a quality oil and gas company.

Brian A. McLachlan
President and Chief Executive Officer

December 11, 2006

Core Operating Areas

Yoho operates in the Western Canadian Sedimentary Basin, with a focus in northeast British Columbia and on the prolific Peace River Arch area of northern Alberta.

Peace River Arch

Yoho continues to build momentum in our original core area of the Western Peace River Arch. The Company at fiscal year end 2006 had over 45,000 net acres of undeveloped land and a substantial inventory of seismic data in this area that contributes to our exploration and development efforts.

During fiscal 2006, Yoho drilled 27 (11.4 net) wells in the Arch area, resulting in seven (3.0 net) oil wells, 11 (4.6 net) gas wells and nine (3.9 net) abandonments.

Net production from the area at year end was 500 barrels of oil equivalent (boe) per day, with an additional 300 boe per day currently shut-in due to facility restrictions. The shut-in production is expected to be back onstream during the first and second quarter of 2007.

Yoho has a variety of exploration targets within the Western Peace River Arch. One of the main targets for exploration drilling is the Triassic aged wedge of sediments that subcrop throughout the area and includes the Doig, Halfway, Boundary, Charlie Lake and Baldonnel formations.

Recent successful drilling in the Boundary Lake and Baldonnel formations will result in increased activity exploring and developing these zones. Initial production from the most recent wells has ranged from 750 thousand cubic feet (mcf) per day to over 2.0 million cubic feet (mmcf) per day of natural gas with associated liquids. Yoho plans on drilling up to nine wells targeting these Triassic formations during fiscal 2007.

Yoho also participated in several deeper tests targeting the Devonian Wabamun formation utilizing three dimensional seismic. The Wabamun, which is a higher risk target, also has higher potential rewards. Initial stabilized production rates from the Wabamun are in the order of 3.0 mmcf per day with substantial associated liquids production.

Yoho participated at 25% working interest in a successful Wabamun discovery in fiscal 2006 at Howard, Alberta which came onstream at gross production rates of 4.1 mmcf per day and 190 barrels of liquids per day and continues to produce at strong rates.

Yoho's fiscal 2007 program includes drilling up to 20 wells (12 net) in the Western Peace River Arch area. The Company will continue to monitor gas prices and resulting cash flow to determine the exact number of wells that will be drilled during the year in order to ensure that our balance sheet remains strong.

NORTHEAST BRITISH COLUMBIA

Yoho's new core area of the northeast British Columbia came to Yoho through the acquisition finalized in December 2006. The area is very similar geologically to the Western Peace River Arch and makes a natural extension to the successful results that we have had in the Arch.

A total of 23,800 net undeveloped acres of land and substantial seismic data were assets that came with the acquisition in British Columbia. The area produces approximately 500 boe per day net to Yoho, consisting of primarily natural gas and associated liquids. The primary targets in this area are the Lower Mannville Dunlevy and Bluesky formations and the Triassic formations of the Halfway, Baldonnel and Charlie Lake. Most of the targets that Yoho has identified to date are less than 1,200 metres in depth. Of the 26 locations that have been identified on the acquired lands, Yoho plans to drill up to nine wells (6.9 net) and re-complete/re-enter two wells during the 2007 fiscal year.

Yoho expects that successful results from our B.C. drilling will be able to come onstream in a timely manner, as ownership in production facilities in several areas was also a part of the property acquisition.

Yoho will continue to evaluate all geological and geophysical data that were part of the acquired lands and we expect that further exploration and development opportunities both on and beyond these lands will form part of Yoho's plan for several years to come.

RESERVES

An independent engineering evaluation of Yoho's crude oil and natural gas reserves was completed by GLJ Petroleum Consultants for all Yoho's properties effective September 30, 2006. These reserve estimates were prepared in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI51-101"). The Company's Reserves Committee meets with the independent reserve evaluators to review the engineering evaluation.

Disclosure provided herein is respect of boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

It should not be assumed that the estimates of future net revenues presented in the following tables represent the fair market value of the reserves. There is no assurance that the constant prices and costs assumptions and forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein.

Summary Of Oil And Gas Reserves And Net Present Values Of Future Net Revenue As Of September 30, 2006 Forecast Prices And Costs

	RESERVES									
	LIGHT AND MEDIUM OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS		TOTAL RESERVES	
RESERVES CATEGORY (1)	Gross (mbbl)	Net (mbbl)	Gross (mbbl)	Net (mbbl)	Gross (Mmcf)	Net (Mmcf)	Gross (mbbl)	Net (mbbl)	Gross (mboe)	Net (mboe)
PROVED										
Developed Producing	49	47	204	170	3,830	2,939	117	80	1,008	787
Developed Non-Producing	0	0	20	16	2,051	1,475	21	14	383	276
Undeveloped	0	0	0	0	289	241	1	1	49	41
TOTAL PROVED	49	47	224	186	6,170	4,655	140	95	1,441	1,104
PROBABLE	23	23	50	42	3,777	2,902	53	36	756	584
TOTAL PROVED PLUS PROBABLE	72	70	274	228	9,947	7,557	193	131	2,197	1,688

(1) "Gross" means the Company's interest of reserves before deduction of royalties. "Net" means the Company's interest of reserves after deduction of royalties.

	NET PRESENT VALUES OF FUTURE NET REVENUE BEFORE INCOME TAXES DISCOUNTED AT				
RESERVES CATEGORY	0% ($ thousand)	5% ($ thousand)	10% ($ thousand)	15% ($ thousand)	20% ($ thousand)
PROVED					
Developed Producing	23,072	20,128	18,004	16,378	15,081
Developed Non-Producing	9,069	8,064	7,265	6,617	6,081
Undeveloped	610	480	377	295	228
TOTAL PROVED	32,751	28,672	25,647	23,290	21,389
PROBABLE	17,259	12,449	9,620	7,746	6,416
TOTAL PROVED PLUS PROBABLE	50,010	41,120	35,266	31,035	27,805

The forecast cost and price assumptions include forecast changes in actual wellhead selling prices and take into account inflation with respect to future operating and capital costs. Crude oil, heavy oil, natural gas and natural gas liquids benchmark reference pricing, as at September 30, 2006, inflation and exchange rates utilized in the GLJ report were as follows:

Summary Of Pricing And Inflation Rate Assumptions As At September 30, 2006 Forecast Prices And Costs

		OIL				
Year	**WTI Cushing Oklahoma ($US/Bbl)**	**Edmonton Par Price 40 API ($Cdn/Bbl)**	**Hardisty Heavy 12 API ($Cdn/Bbl)**	**NATURAL GAS AECO Gas Price ($Cdn/Mmbtu)**	**INFLATION RATES(1) %/Year**	**EXCHANGE RATE (2) ($US/$Cdn)**
2006 Q4	63.00	69.75	33.00	5.50	2.0	0.89
2007	65.00	72.00	42.50	7.50	2.0	0.89
2008	60.00	66.50	40.00	8.00	2.0	0.89
2009	55.00	60.75	37.25	7.95	2.0	0.89
2010	52.00	57.50	36.00	7.55	2.0	0.89
2011	53.00	58.50	37.25	7.35	2.0	0.89
2012	54.00	59.75	38.25	7.50	2.0	0.89
2013	55.25	61.00	39.25	7.65	2.0	0.89
2014	56.25	62.25	39.75	7.85	2.0	0.89
2015	57.50	63.50	40.75	8.00	2.0	0.89
2016	58.50	64.75	41.50	8.20	2.0	0.89
Escalation Rate of 2.0% thereafter.						

Notes:

(1) Inflation rates for forecasting prices and costs.
(2) Exchange rates used to generate the benchmark reference prices in this table.

UNDEVELOPED LAND

The following table sets out Yoho's undeveloped land holdings as at September 30, 2006.

	Undeveloped Acres	
	Gross	**Net**
Alberta	93,280	56,194
British Columbia	966	966
Total	94,246	57,160

CORPORATE INFORMATION

Officers

Brian A. McLachlan, P.Geol
President and Chief Executive Officer

Clark W. Drader
Vice President, Land

Barry J. Stobo, P.Eng
Vice President, Engineering
and Chief Operating Officer

Wendy S. Woolsey, CA
Vice President, Finance
and Chief Financial Officer

Directors

Terry Svarich, **Chairman**
Bruce Allford
Peter Kurceba
Brian McLachlan
Kevin Olson
Gary Perron

Auditors

KPMG LLP

Bankers

National Bank of Canada

Evaluation Engineers

GLJ Petroleum Consultants

Legal Counsel

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Trading Symbol: YO

Abbreviations

bbl	barrel
mbbl	thousands of barrels
mcf	thousand cubic feet
mmcf	million cubic feet
boe	barrels of oil equivalent (6:1) *
mboe	thousand barrels of oil equivalent
boe/d	barrels of oil equivalent per day
bbl/d	barrels per day
mcf/d	thousand cubic feet per day

In conformity with National Instrument 51-101, standards for Disclosure for Oil and Gas Activities ("NI 51-101), natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that the term "boe" may be misleading, particularly if used in isolation.

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